RASMALA

Hold (from Buy)

TP E£82.00 (from E£124.00)

Change of recommendation

RBS Refiner

Price (close 10 Jan)	E£74.94
3M high/low	E£105.10/72.99
Market cap	E£7.49bn
Av (12M) turnover	E£8.31m
Freefloat	27%
Reuters	EMOB.CA
Bloomberg	EMOB EY
Net debt (cash) FY10	E£6,382.83m
3yr EPS CAGR 11-13F	(21.7)%
Income (2012F div yield)	3.1%

Source: Bloomberg

RBS vs consensus

NPBT (E£m)	Ours	Cons	%
2011F	292	537	-46
2012F	523	716	-27
2013F	874	941	-7

Source: RBS, Bloomberg

Price performance

	(1M)	(3M)	(12M)
Price (E£)	95.38	90.70	171.4
Absolute (%)	-21.4	-17.4	-56.3
Rel to mkt*(%)	-16.5	-12.9	-15.7

*EGX30
Source: Bloomberg

Key events

Date	Events
Feb	Annual results announced
Apr	Interim results announced
Jul	Interim results announced

Source: Bloomberg

Analyst

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Mobinil

Concerns remain

Mobinil was the worst performer in the region on a 12-month basis (falling 56%) as the company faced more than just competitive and economic pressure during 2011. We have raised our cost of equity to reflect the political volatility and cut our target price to E£82. Hence, we move to a Hold recommendation from Buy.

Event: Political and economic risks continue in Egypt

In Egypt, there is still much uncertainty regarding the economic outlook and the political direction the country may take. Popular measures by the government may result in a deteriorating environment for businesses operating in the country. Egypt-based Mobinil was the worst performer in the region on a 12-month basis, falling by 56%, as the company faced more than just economic and political pressures. Mobinil also saw the largest drop compared to its regional peers in both its EBITDA margin and net profit performance during 3Q11, as a result of increased competition, which was exacerbated by the negative social impact that a Twitter incident caused, resulting in a boycott of the company. Furthermore, as a result of a new tax regime in Egypt, Mobinil saw its net profit plummet into negative territory.

Forecasts: We remain cautious about a revenue turnaround

We have reviewed our forecasts for year-end 2011 and beyond to account for the economic uncertainty and the competitive pressure from both Vodafone Egypt and Etisalat. We lower our revenue forecasts for FY11, FY12 and FY13 by 6%, 12% and 14%, respectively, as we believe that continuing negative media coverage surrounding Mobinil shareholder Naguib Sawiris could potentially extend to the company, resulting in further boycotts. Sawris already faces a trial for insulting Islam. Also, we lower our EBITDA forecasts for FY11, FY12 and FY13 by 10%, 13% and 15%, respectively, to account for higher subscriber acquisition costs following the Mobinil boycott.

Valuation: Target price lowered by 33% to E£82 per share to a Hold recommendation

We believe the political and economic outlook remains a bit murky but short-term volatility may continue at least until 1H2012, or following the presidential elections. Accordingly, we take a cautious stance towards Egyptian telecoms under our coverage and raise our discount rate from 10.5% to 14.5%, to adjust for the increased political risk. That noted, we lower our DCF-based TP for Mobinil by 33% to E£82 from E£124 earlier, driving a downgrade to Hold from Buy. We see no compelling catalyst in the near term beyond the potential macroeconomic recovery. In Sept-2012 and in the next couple of years, there could also be a positive catalyst should Orascom Telecom Hldg/Orascom Telecom Media and Technology Hldg decide to exercise their option to sell their remaining Mobinil/Egyptian Company for Mobile Services shares to France Telecom, which we infer could trigger a tag along of over E£200/shr. The main downside risks are political instability and fiercer-than-expected pricing and competition, leading to pressure on EBITDA margins. Upside risks include a better-than-expected market-share performance and a better overall economic picture in Egypt.

Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	10,807	10,576	9,917	9,608	9,637
EBITDA (E£m)	5,260	4,554	3,410 ▼	3,507 ▼	3,566 ▼
Normalised PTP (E£m)	2,573	1,758	291.7 ▼	523.2 ▼	874.0 ▼
Norm fully diluted EPS (E£)	20.38	13.65	-0.47 ▼	3.92 ▼	6.56 ▼
Normalised PE	3.68	5.49	-160	19.10	11.40
Dividend per share (E£)	7.50	9.19	0.00	2.35 ▼	5.24 ▼
Dividend yield (%)	10.00	12.30	0.00	3.14	7.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: Local GAAP

Source: Company data, Rasmala forecasts

RBS Equities Forecasts: Mobinil

Income statement

E£m, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	10807	10576	9917	9608	9637
Cost of sales	-2039	-2395	-6508	-6101	-6071
Operating costs	-3508	-3627	0.00	0.00	0.00
EBITDA	**5260**	**4554**	**3410**	**3507**	**3566**
DDA & Impairment (ex gw)	-1942	-2047	-2370	-2101	-2000
EBITA	**3318**	**2506**	**1040**	**1406**	**1565**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**3318**	**2506**	**1040**	**1406**	**1565**
Net interest	-688.0	-589.2	-649.1	-786.6	-594.8
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-56.7	-159.1	-99.2	-96.1	-96.4
Reported PTP	**2573**	**1758**	**291.7**	**523.2**	**874.0**
Taxation	-535.6	-392.7	-338.4	-130.8	-218.5
Minority interests	0.43	-0.07	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**2038**	**1365**	**-46.8**	**392.4**	**655.5**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	5260	4554	3410	3507	3566
Normalised PTP	2573	1758	291.7	523.2	874.0
Normalised net profit	**2038**	**1365**	**-46.8**	**392.4**	**655.5**

Balance sheet

E£m, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	813.9	610.5	1344	600.0	660.0
Other current assets	1055	1504	1502	1438	1425
Tangible fixed assets	9800	10270	9894	9413	9051
Intang assets (incl gw)	2956	4328	4328	5078	5078
Oth non-curr assets	13.5	18.1	82.1	82.1	82.1
Total assets	**14640**	**16731**	**17150**	**16611**	**16296**
Short term debt (2)	559.4	205.8	0.00	774.6	1896
Trade & oth current liab	5441	5329	6070	6284	6185
Long term debt (3)	4013	5968	6968	5127	3450
Oth non-current liab	947.5	1084	950.6	870.6	790.6
Total liabilities	**10961**	**12587**	**13988**	**13056**	**12322**
Total equity (incl min)	3679	4144	3162	3555	3975
Total liab & sh equity	**14640**	**16731**	**17150**	**16611**	**16296**
Net debt	4166	6383	6665	6846	6133

Cash flow statement

E£m, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	5260	4554	3410	3507	3566
Change in working capital	-1575	-605.0	534.3	-224.1	10.7
Net interest (pd) / rec	688.0	-589.2	-649.1	-786.6	-594.8
Taxes paid	-330.9	-392.7	-338.4	-130.8	-218.5
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	**4042**	**2967**	**2956**	**2365**	**2763**
Capex (2)	-2241	-1840	-1800	-2370	-1638
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-123.6	-2405	-342.1	251.5	277.3
Cash flow from invest (3)	**-2365**	**-4245**	**-2142**	**-2119**	**-1361**
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-931.8	-889.1	0.00	-235.4	-524.4
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-767.2	1833	-318.9	-643.1	-732.8
Cash flow from fin (5)	**-1699**	**943.5**	**-318.9**	**-878.6**	**-1257**
Forex & disc ops (6)	184.6	131.1	238.0	-116.6	-116.6
Inc/(decr) cash (1+3+5+6)	**163.4**	**-203.4**	**733.5**	**-748.5**	**28.1**
Equity FCF (1+2+4)	1801	1127	1156	-4.81	1125

Source: Company data, Rasmala forecasts

DCF valuation

To offset the higher political risk in the country we have raised our discount rate from 10.5% to 14.5%, which was the main reason behind our lowered target price to E£82 and our Hold recommendation.

In our valuation for Mobinil, our base-case scenario assumptions include a cost of equity of 19% based on a risk-free rate of 14.5% and a premium of 5%, cost of debt of 15%, a terminal growth rate of 3% and beta of 0.91x.

Mobinil's DCF valuation yields a 12-month fair value of E£82 per share, 9% higher than the current trading price of E£74.94 per share.

Table 1 : DCF approach

(E£m)	Free cash flow	PV of FCF
2012F	1,436	1,252
2013F	1,623	1,231
2014F	1,810	1,195
2015F	1,732	995
2016F	2,188	1,093
Terminal value	18,912	9,449
Enterprise value		15,215
Minus: net debt		7,002
Equity value		8,213
Number of shares (m)		100
12-month fair value per share (E£)		82

Source: Rasmala estimates

We also employ a sensitivity analysis, with different rates for both the cost of equity and terminal growth rate, to illustrate how sensitive our DCF valuation is to changes in these assumptions.

Table 2 : DCF sensitivity analysis (value per share, E£)

E£ per share	Terminal growth rate				
	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
21.1%	63.6	66.9	70.4	74.2	78.4
20.1%	68.6	72.2	76.0	80.2	84.8
19.1%	74.0	77.9	82.1	86.7	91.8
18.1%	79.8	84.1	88.7	93.8	99.4
17.1%	86.0	90.8	95.9	101.6	107.8

Source: Rasmala estimates

Table 3 : Forecast changes

E£m, unless stated otherwise	(Old forecasts)			(New forecasts)			Change		
	FY11F	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**
Revenue	10,575	10,908	11,220	9,917	9,608	9,637	-6%	-12%	-14%
EBITDA	3,793	4,036	4,207	3,410	3,507	3,566	-10%	-13%	-15%
EBITDA margin	36%	37%	37%	34%	37%	37%			
Net profit	343	857	1,147	(47)	392	656	n/m	-54%	-43%
EPS (E£ per share)	3.43	8.57	11.47	(0.47)	3.92	6.56	n/m	-54%	-43%

Source: Rasmala estimates

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Target price:The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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